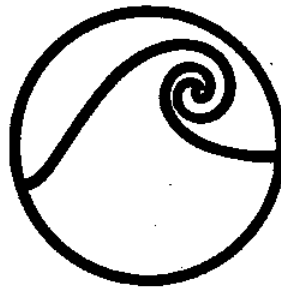


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Proceedings

Fisheries Cooperative Symposium



**Pacific
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Proceedings
Fisheries Cooperative Symposium

Sponsored by
Pacific Sea Grant Advisory Program
at
University of Washington, Seattle
February 6-7, 1975

\$1.00

published for
Pacific Sea Grant Advisory Program
by Oregon State University Extension Service
Sea Grant Marine Advisory Program
Corvallis 97331 / August 1976

PACIFIC SEA GRANT ADVISORY PROGRAM

The Pacific Sea Grant Advisory Program (PASGAP) is an international venture in cooperative marine extension. The program grew out of the recognition that regional marine needs could best be met through regional approaches. PASGAP members work together to identify the needs of the Pacific marine community and to help meet those needs through communications projects, talent sharing, and specialized projects.

PASGAP is funded by the U.S. Department of Commerce, National Oceanic and Atmospheric Administration, through the National Sea Grant Program, under Grant Number 04-4-158-45. Current members include representatives from:

University of Alaska	University of Southern California
University of Baja California	University of Guam
University of British Columbia	University of Hawaii
University of California	Oregon State University
University of California at Humboldt	University of Washington
National Marine Fisheries Service	

FISHERIES COOPERATIVE SYMPOSIUM

Symposium Organizers

James Bray, Staff Economist, Division of Marine Resources,
University of Washington, Seattle
Graham A. Drew, Director, Resource Industries Programmes,
University of British Columbia, Vancouver
Frederick J. Smith, Extension Marine Economist,
Oregon State University, Corvallis

Recorder and Proceedings Editor: Jennifer Dee

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PREFACE

On February 6-7, 1975, the Pacific Sea Grant Advisory Program (PASGAP) sponsored a fishery cooperative symposium. Participants included commercial fishermen, members and managers of coops, attorneys, accountants, and representatives from government agencies and state extension programs. The objective was to provide *practical* information on organizing and operating a fishermen's cooperative. The symposium focused on the experiences of people already involved in cooperatives and on questions from other participants who had come to learn more about coops.

This publication is a result of the symposium. It incorporates panel members' presentations, participants' questions, and discussions of the group as a whole; but it is not simply a transcript of the proceedings. The publication contains information on services available to coops; practical guidelines on cooperative management, plant operations, and marketing; and also some first-hand reports on coops already established in the Northwest.

INTRODUCTION

People organize fishery cooperatives for different purposes: to buy and sell fish, to bargain for prices, to process and market fish, or to purchase supplies and equipment. Coops in the U.S. and Canada presently do all these things and more. A cooperative can do many things, but it is important to realize that it will not be the answer to all of the industry's problems—"A cooperative is not a religion."

A cooperative is simply one of the four forms of business organization: sole proprietorship, partnership, corporation, cooperative. We have little trouble dealing with the first three on a rational and businesslike basis. If someone wishes to form a corporation, he follows a logical procedure:

1. Determine the economic need for a service or product.
2. Project the amount of capital and the talent needed to provide the service or product.
3. Project the potential market.

With cooperatives, however, there is a tendency to let emotion replace sound economic judgment; cooperatives are often formed *in spite of* the outcome of steps 1, 2, and 3, above.

If the potential profit looks favorable, the next question should be, "What is the best form of business organization to realize that profit?" In other words, why form a cooperative? Why not a corporation? A cooperative and a corporation have different goals and different conceptions of profit. A person invests in a corporation in order to increase the value of his investment through dividends. A person invests in a cooperative in order to provide an economic service for all members. In a cooperative, dividends either have a fixed rate or are converted into some form of "book credit."

Cooperation, of course, is also a necessary element of a coop; but it is not the end or the goal—it is the *means* by which group objectives are accomplished. The goal of any cooperative should be to provide successfully the economic services needed by its members; this takes cooperation *and* a sound business organization.

SERVICES AVAILABLE TO COOPERATIVES

There are a number of agencies and individuals that can provide assistance with both the planning and the operating stages of your cooperative.

Financial Services—The Spokane Bank for Cooperatives

One of the first steps in organizing a cooperative should be to see your prospective lender. One bank that deals specifically with coops is the Spokane Bank for Cooperatives. It is part of the Farm Credit System, and it serves the entire Northwest. The bank has served agricultural coops for many years, and since 1971 it has dealt with fishery cooperatives, too. The bank itself is organized as a cooperative; as a borrower, you become a member or owner of the bank as well.

The Spokane Bank for Cooperatives provides two kinds of loans: *long term*, for facilities, large equipment, or construction; *short term*, for inventory or receivables. The short-term or seasonal loans are like a line of credit, to be borrowed and then paid back over one year's earning cycle. No prepayment is required on either kind of loan, and the interest rates are adjustable. (The rates vary with the national money situation—when money is tight, the rates rise; when things loosen up, the rates drop.) The bank's guidelines on loans are strict, but as its experience with fishery coops grows, it is relaxing a bit.

The Spokane Bank offers a number of other services at no charge:

1. It can provide business analysts in the planning stage to help establish a financial format for the cooperative, and later to help develop *cash/flow projections*.*
2. It can compile comparative industry studies, which allow a coop to compare factors such as its costs and earnings with those across the country.
3. It cosponsors seminars on developing cooperative leadership.

Who is eligible for these services? Any cooperative that meets the following qualifications:

1. At least 80 percent of the vessels must be owned by members.
2. At least 50 percent of the coop's business must be transacted between members.

*Terms printed in italics and followed by an asterisk are defined in the Glossary, page 19.

3. Membership must be on a one-member/one-vote basis; *or* interest on *capital shares** must be limited to 10 percent. (However, to stay exempt from the Sherman Anti-Trust Act, interest should be kept at 8 percent. See "Legal Services," below.)
4. Earnings must be allocated on a patronage basis—that is, a member's earnings should be proportional to the amount of his products handled by the cooperative.

Services from Federal and State Agencies

Farm Credit Administration. Since 1973, the FCA has been authorized to assist the fishing industry with loans and other services; it functions as an alternative to the national banks. It is not a government agency but an independent organization that is owned by its members. Like the Spokane Bank for Cooperatives, its interest rates on loans are adjustable.

Farmer Cooperative Service. FCS is a small government research agency in Washington, D. C. It provides organizational assistance, such as developing management techniques, and technical assistance, especially for new groups like fishery coops. (Fishery coops in the Southeast have already utilized its services.) FCS will perform no-cost studies on problems such as the market feasibility for a product or financial projections for plant operations.

The best way to obtain the services of the FCS is, first, to go to your lender and ask that a study be done by the Farmer Cooperative Service; your bank will then contact the agency. Second, write your representative in Congress and ask him or her to make a request for assistance to the FCS.

Federal and State Extension Services. While the Federal Extension Service supplies funding for programs, its real focus is the states' extension services. Most state and land-grant universities have specialists in cooperative organization and management. Local contacts are the extension agents, usually housed in the county extension office.

Through funding from the National Sea Grant Program, marine extension agents are now available in most coastal communities. The marine extension agent will assist anybody in the marine industries and can obtain the assistance of university or government specialists.

Legal Services

An attorney is another person who should be seen early in the planning stages of a cooperative. He or she will assist in making sure that the cooperative fits within the regulations and restrictions of the law. This is a very complex area, and this section can only be an introduction to the

kinds of legal questions and problems that a coop and its attorney must deal with.

There are four areas of legal regulation that a coop must attend to:

Exemption from the Sherman Anti-Trust Act. If a cooperative is successful, it runs the risk of violating anti-trust laws. However, cooperatives may qualify for an exemption from these laws under the Fishery Cooperative Marketing Act of 1934. To be eligible for exemption, members must transact no less than 50 percent of their business with other members, and membership must be on a one-member/one-vote basis; or coop dividends must not exceed 8 percent. The one-member/one-vote basis may be adjusted so that the value of a member's vote is proportional to the degree of patronage; but to avoid trouble with the Sherman Act, the value of the vote must be based on *current* patronage.

While the Fishery Cooperative Marketing Act exempts coops in general, there are still particular aspects of the Sherman Act that remain binding. Recently, bargaining cooperatives have won exemption from anti-trust laws on the basis of the Cooperative Marketing Act.

Tax Laws. A fishery coop may be exempt from paying Federal income taxes (IRS Code 521) only if the coop deals with a product that is farmed or pen-reared. A coop will not be exempt if the fish are caught on the high seas.

A coop may be able to pay a single tax if it is able to qualify under subchapter T of the IRS Code. The advantages of paying a single tax are ease of collection and an allowance to deduct patronage dividends.

A cooperative must pay a corporate tax. It can distribute patronage dividends in such a way as to make the tax very small; nonetheless, a coop must file a corporate tax return.

State Laws of Incorporation. A cooperative may be unincorporated (an association) or incorporated. If incorporated, a coop will also have to qualify under the regulations of the state in which it is incorporated.

Securities Act. A cooperative that is not exempt from paying Federal income taxes is also not exempt from the Securities Act. Patronage dividends may be considered a *security*,* and if the coop has members from more than one state, it may be in violation of this act. However, if members are all from one state, the coop may be exempt. Washington state law specifically exempts cooperatives from the Securities Act; Oregon law does not.

Preliminary Legal Steps in Organizing a Cooperative. An attorney can assist a coop in the early stage of planning in three areas:

Setting up preincorporation agreements. A cooperative may wish to establish an agreement concerning the way money is to be raised by the members: annual dues, membership application fees, or subscription to capital stock. If any funds are actually collected prior to incorporation,

it is advisable to hold them in *escrow*.*

A cooperative may also wish to establish marketing agreements concerning the amount each member will produce or deliver. Both kinds of agreements are very important, especially for a coop that is just beginning. The agreements ensure that the coop will have an adequate amount of capital and products to start operation.

Once these agreements are made, they must be enforced. One member who is allowed to "run" can damage the entire coop. Another way to back up agreements is to withhold part of the payment until final accounting at the end of the year; or if the agreements provide for an advance, this can be secured by a *lien*.*

Considering the capital structure. A coop's capital may be structured in different ways—through application fees, annual dues, capital shares, *equity securities*,* or *debt securities*.*

Drawing up the organizing papers. There are two main sets of organizing papers. The *articles of incorporation* are a grant of authority from the state of incorporation. The *by-laws* are the basic working plans for the organization. They provide for the regulation of the coop's affairs, and they also serve as contracts between the different members of the coop. The obligation to comply with the by-laws is as valid and as binding as a marketing agreement.

The contents of articles and by-laws are regulated by state laws; therefore, a cooperative should check to make sure that it qualifies under the state's provisions concerning such things as membership meetings and voting, allocation of net savings and type of equity, or dissolution rights of members.

Accounting Services

An accountant can help a cooperative determine the type of financial organization that will be needed. Because a coop has different goals and a different conception of profit from those of a corporation, an accountant should develop a financial structure that is appropriate for coops.

An accountant can also help set up a good system of internal controls for the accounting system. This would greatly facilitate audits, which are generally required by law. Many coops, especially those with a *pooling** system, are complex organizations; safeguards on the accounting system are a necessity. An accountant should establish a system of reports and controls in such a way that it will be understood by, and useful to, management and the board of directors.

One of the most important aspects of planning a cooperative is budgeting. By preparing a budget and determining cash/flow projections and collection

procedures, a cooperative will be able to determine whether it has sufficient *working capital*.^{*} Also, many banks will ask to see a budget from their prospective borrowers. It is essential that banks have an accurate picture of organizations and their ability to repay loans.

One of the best books on accounting for all types of cooperatives is *Accounting and Financial Reporting for Agricultural Cooperatives*, published by the National Society of Accounting for Cooperatives (it can be ordered from the NSAC, Box 4765, Duke Station, Durham, NC 27706). There are also several professional accounting societies in the Northwest that deal especially with cooperatives; these would also be good sources of information about accounting.

MANAGEMENT OF COOPERATIVES

A cooperative organization can be divided into three components: board of directors, hired management, and membership. Each has specialized responsibilities and different relationships with the other two. In organizing a cooperative, it is important to define clearly each component and its responsibilities, and to maintain good lines of communication among all three.

Board of Directors

Directors are nominated and elected by the members to represent them in conducting the affairs of the coop. The board of directors must act as a joint body. No one individual can act for, or obligate, the whole board. The board is the key decisionmaking center—its role is to develop major policies and long-range plans and objectives for the cooperative, such as approving loans, expanding operations, or developing a new product.

The board is also responsible for hiring and adequately compensating a manager. The board should be an adviser to the manager, but it should not get involved in the day-to-day operation of the coop—that is the manager's job. The manager and the board should act as a team, each with different responsibilities, but both working to achieve the same goal, a successful cooperative.

Board members are "trustees" of the coop. Since they are responsible for safeguarding the coop's assets, and for making long-range financial plans, members of the board should be able to read and interpret audits and financial reports from management. This is an important consideration that is often overlooked. Board members can be held legally responsible for losses to the coop caused by negligence or fraud.

Another aspect to consider when organizing a cooperative is an "inside/outside" structure for the board. This allows for persons outside the cooperative, with different skills and knowledge (bankers or businessmen, for example), to become board members. In some cases, this may be advantageous, but certain states prohibit it; in Oregon, directors must be members.

Management

The manager and his staff are the second component of a cooperative, and they are responsible for running the daily affairs of the coop. The board of directors should hire a manager on a full-time basis; a part-time manager/part-time fisherman is likely to be unsuccessful. The size of the management staff will vary with the size of the coop. For example, the Prince Rupert Fishermen's Cooperative has a staff of nearly 50 people, while another Northwest coop, the Washington Halibut Producers' Association, has a staff of five.

The manager has the overall responsibility for the money and the products of the cooperative. Therefore, the most valuable asset in a manager is his business ability, not his fishing experience. A good grasp of accounting is especially important for managers because coops generally have complex financial arrangements, such as pooling systems and advance and final settlement procedures. These cannot be managed with just "shoe-box accounting" skills.

It is a good idea, and it may be required by your state, for the manager to be bonded.

Besides running the daily operations of the cooperative, the manager also has advisory duties to the board of directors. The manager should furnish the board with financial and operational reports on a regular basis. He should also inform it of his specific goals in order to assist the board in its long-range planning. The manager should consult with the board on all major decisions.

Developing two-way communication between the board and management is probably one of the biggest problems of cooperatives. Because of the nature of fishery coops, board members tend to be transient or available only off-season. This can press managers into taking on more responsibilities than they should. A cooperative should try to keep board and management balanced and working as a team.

How do you find a good manager? First, check with your banker, Extension Service representative, or accountant. They are all likely to have some good contacts.

Membership Relations

One of the basic principles of cooperatives is that the members are the ultimate authority. They are not merely customers of the coop; they are all partners in a joint business venture.

Good membership relations are an important part of a coop's operations. Some cooperatives, like Prince Rupert's, have established a position in the management staff devoted solely to improving membership relations.

One of the largest concerns in membership relations is establishing two-way communication. This is especially true for fishery coops, where the members are transient and widespread. The Prince Rupert Coop has organized lines of communication into three levels.

Local meetings ↔ regional committees ↔ board of directors

For important decisions on major policies or investments, local hearings are held in order to get members' opinions directly.

A coop can use a number of types of communication: annual reports, information bulletins or newsletters, meetings, and regional or local visits by a management team. Social events are also an effective means of developing better communication in the cooperative.

Educating new members and integrating them into the coop is another important aspect of membership relations. Prince Rupert has prepared a brochure for new members that gives a general overview of coop operations and explains the coop's expectations about quality control and productivity.

Membership relations can also be improved by providing other services for members, such as a coop supply store with wholesale prices, insurance services, or educational programs. These help maintain the members' interest in the cooperative throughout the year.

PLANT OPERATIONS

This section deals with the mechanics and considerations of operating a cooperative fish plant.

Financing

One of the first steps in organizing a cooperative processing plant is determining your capital needs. A cooperative is a business; like any other business, it must have an adequate capital base. This will provide stability

for the organization, and this is crucial for coops involved in fishing, which is a cyclical industry. A good capital base will enable a cooperative to survive through the low periods. It will also win points with your lender. A bank is more likely to assist such a coop because a good base indicates real commitment to the venture by the members.

One consideration for determining an adequate amount of base capital is that a bank will generally lend up to 60 percent of the value of a coop's *fixed assets*.* The assets may be in money or in goods such as a dock, land, vessels, or equipment. This means, then, that a sufficient capital base to begin operations should be roughly equal to 40 percent of the total projected cost. If there is less base than that (and, therefore, more to be borrowed), the interest on the loans will likely prevent the coop from being competitive.

Another aspect in financing the actual operation of a coop is sufficient *working capital*.* It is very important that a cooperative have *internally* generated capital that is kept in the business. Although a coop's profit (or "margin") is considered a savings to the members, a coop cannot operate without a profit. Without it, a coop will not be able to grow enough just to maintain itself. Working capital can be generated in a number of ways.

Money can be taken from the product (for example, \$.02 a pound) as a "retake," or at the end of the year a certain percentage of the margin can be kept in the business rather than distributed back to the members. Still another way to raise capital is through business with nonmembers (up to 50 percent is legal). Here a cooperative can show a profit. This is also a good way to utilize the transient or marginal producers, like the "weekend troller."

The amount of working capital needed will vary according to the organization of the coop. For example, coops with pooling arrangements will probably need less. As a general guideline, a coop should have working capital equal to 35 percent of the amount needed for operating expenses at peak time.

Based on your working and base capital needs, your lender will assist in determining the best capital program for your cooperative. Usually, this will be either a *permanent capital** or *revolving capital** program. There are a number of systems—the important thing is to have one that will use the margin to grow with rather than return it all to the members.

How do you get started?

First, go to your lender. He will help you develop an orderly timetable for financing the cooperative. You should come with some rough estimates of the size and costs of operation. The first step will be determining the basic expenditures: servicing the debt and capital stock, plant operations, investments, management, marketing, and audits. This will at least indicate the margin needed just to run the coop. From these figures, the bank will then help determine long-range cash-flow projections and, finally, a financial format to suit the cooperative's needs.

The bank will also help finance cooperatives with loans. Generally, banks will lend up to 35 percent of a coop's current assets for short-term, and up to 60 percent of current assets on long-term. Even with loans, the initial capital needed to begin operations can be very steep. (A \$1 million operation will need a \$400,000 capital base.) There are alternatives to help reduce the base amount: begin as a joint venture with another coop; lease equipment for the plant with an option to buy later.

Internal Accounting and Audits

Internal Accounting. A cooperative cannot simply rely on its competitors' price to determine a fair market price for its product. This should be based on the actual production costs, which can only be determined by a cost-accounting system.

A cost-accounting system should trace all the transactions of the cooperative, from processing the raw product (inventory cycle) through the finished product (receivable cycle). It should also include a cycle for all inputs or purchases, and one for overhead and operational expenses.

Developing a cost-accounting system is difficult for bargaining and producing coops because there is no "cost" for fish as a raw product. In this case, a value can only be roughly estimated.

Financial Audits. A financial audit is prepared by an outside or hired accountant. It can be performed for a number of purposes:

1. To examine and verify records and to check the internal accounting system. Insurance records especially should be checked annually.
2. To identify financial deficiencies, such as in collection procedures or in management practices, or not taking advantages of cash discounts.
3. To give a professional opinion of the economic results of the operation. The best is an "unqualified" opinion. This will help in obtaining credit; it may even be requested by some banks. An "unqualified" opinion will also bolster the confidence of the members in the economic soundness of the cooperative.

When an auditor is hired, both coop and auditor should agree to a *letter of engagement*, which spells out in detail the services to be rendered. The complexity of the audit will depend on the size of the operation, but there is generally one standard audit report.

After the audit is performed, the auditor should send a letter to management, citing the deficiencies found in the organization and making suggestions for change. A copy of the letter should also be sent to the board, for it is responsible for hiring the auditor.

Processing Coops

Some Conditions for Financial Success. Agricultural cooperatives have a long and successful history, and fishery coops can learn a lot from their experience. Agricultural processing coops have shown that a cooperative may have some real advantages in its ability to achieve high quality and efficiency. Because all members are partners in the coop, they exert pressure on one another to deliver good quality products.

In the past, the greatest problems have been in management. A cooperative needs tough, well paid leadership in order to be effective. Management must not be afraid to penalize or even drop members who do not meet schedules or quality specifications.

Cooperatives should not overlook the possibilities of joint ventures with other kinds of business organizations, such as a sole proprietorship or a corporation. Only 50 percent of a cooperative's business must be transacted between members. Groups or businesses outside the membership may also be a source of benefit for the coop.

Production and Processing Management—The Prince Rupert Story. In planning a new cooperative, there is a lot to be learned from the experience of coops already in existence. The Prince Rupert Fishermen's Cooperative Association has been established on Vancouver Island, B.C., as a processing coop for 35 years.

Presently, Prince Rupert has two plants: one in year-round production, the other in half-time. The coop serves a variety of gear and fish: salmon, crab, bottomfish, etc. The plants handle most of the products of the members; but the coop does make special arrangements for outside handling, delivery in other areas, or custom canning for some members. However, when different processing arrangements are made, Prince Rupert maintains ownership and the right to sell the product once it is processed.

The coop is financed by share capital. Each member annually contributes 10 percent of his gross earnings to the cooperative. Half of that goes into share capital until the member's investment reaches \$6,000; this investment bears no interest. The other half is a loan to the coop, which may be redeemed after a certain length of time; it only bears interest if it is kept in the coop beyond the set time.

The cooperative has also floated *debenture bonds** to help with financing. It relies on loans with credit unions to finance inventories and additional

construction. When organizing a processing coop, another cost to keep in mind is insurance. At Prince Rupert's the catch is insured from the boat to the plant.

Both vessel owners and crew members are members of the coop; therefore, they must invest the same amount of share capital. The coop pays for the fish delivered according to a share agreement worked out between the vessel owners and the crews. Crew members are unionized (Deep Sea Fishers), but they maintain the right to work when other unions strike. There are also people employed by the coop who are not members—plant workers, for example. Here the cooperative must become involved in union negotiations and bargaining.

The biggest problems in plant management for the Prince Rupert Cooperative are:

1. keeping the equipment functioning and up to date with the latest processing methods;
2. controlling the membership so that it does not exceed the capacity of the plants; and
3. maintaining quality control (disputes over grading are now referred to a committee for arbitration).

Probably the biggest difference between a cooperative and a private or corporate processing plant lies in the role of the fishermen. Because the fishermen are coop members, and not just customers, their opinions and suggestions must be taken into consideration by the plant management.

BARGAINING AND MARKETING

The area of marketing is one of the most interesting and one of the most complex. A great number of people make up the marketing picture for the fishing industry. Fishermen can no longer think that the "market" ends at the dock or the tenderer's boat. The market involves a whole chain of different groups: processors, wholesalers or distributors, food chains, restaurants, and consumers. The more that fishermen become involved in businesses like cooperatives, the more they need to understand the whole marketing picture.

This section summarizes the experiences of two Northwest coops involved in bargaining and marketing, and it also presents some general guidelines on market development and exporting.

Bargaining Cooperatives

The All-Coast Fishermen's Marketing Association (a Coos Bay, Oregon, coop) is the result of fishermen joining together to obtain a fair market price for their products (shrimp, crab, and salmon). The coop is a bargaining or pricing association—it rarely takes full possession of the product. Instead, the actual transactions for fish are left up to the individual members and dealers.

The cooperative operates by determining a price and then submitting market orders to the dealers. The dealers generally submit a counter-offer, and then a final price is negotiated between the two groups. Only after a price has been agreed upon by both sides do the members go out to fish. If no agreement can be reached, the coop then tries to transport their products to another market. Tying up at the dock should be a coop's *very last* option.

The market order is a contract between the coop and the dealers. Besides the price, the agreement contains other specifications such as how and when the product will be delivered. There is an escape clause; both the members and dealers have an option to pull out of the agreement on 24 hours' notice.

One of the biggest problems in operating a bargaining cooperative is determining a fair market price for the coop's products. To do this, a good understanding of the wholesale market structure and more timely information on the going prices are needed. The National Marine Fisheries Service' "pink sheets" ("yellow sheets" in California) contain good historical data, but they are of little value for determining current prices.

Rigorous quality control is another necessity for bargaining coops. If poor quality fish are delivered, the price goes down, and everyone is penalized, good and bad fishermen alike. Disputes over grading can become a problem. At Coos Bay, if a buyer refuses a delivery, a committee from the association is sent to make a judgment; some catches have been dumped as a result. This procedure puts the burden on the member to be conscientious about quality.

If the association is only a pricing coop, the membership's interest may wane once the contracts have been signed. Once established, a cooperative can get involved in a number of activities and services for its members that will help maintain a strong membership throughout the year.

Marketing Cooperatives

The Washington Halibut Producers' Association (a producers' coop) also owns a marketing cooperative (a separate operation, with its own officers and staff). The marketing coop is an international business; it acts as a clearinghouse for several coops.

Each group delivers its products to the marketing coop at the wholesale price—the price is not negotiated. Then the products are pooled and allocated by the market manager. At the end of the year, the profit is prorated by the percentage of products that were used or sold from each participating cooperative. The coops do not compete with one another; the allocation is left up to the market manager's decision. To pay for the marketing coop's overhead expenses (office rent, broker and storage fees), each coop assesses itself 7 percent of its earnings. However, usually there is a 2-percent rebate at the end of the year. That means that a coop gets a 95 percent return on the products it delivers to the marketing coop.

The marketing manager is responsible to the coop general manager, to whom he submits an annual report on the operation. The marketing manager gets the product price from the general manager, adds overhead expenses, and then arrives at a final cost. His primary objective is to sell the product for a profit.

As in any other kind of cooperative, quality control is very important. A marketing coop must be tough with members, for poor quality products can jeopardize the coop's success. New members should be educated about handling and preserving fish to maintain top quality.

Marketing coops are a risky business; the profits are never the same from one year to the next. The specific problem in marketing coops is trying to maintain a continuity of supply. Agreements with producers are generally open-ended. Only the overhead is due on a fixed basis because no set quantity of fish can be predicted. Marketing coops must find ways of smoothing out the fluctuations of production. This can be quite a problem, especially if a coop has spent time developing a new market, and then finds itself unable to meet the demands. One option is to buy private fish in order to keep a customer supplied. Another is forming a federated coop, where a number of producing cooperatives market their fish under one name or trade-mark. The larger the federation (and the product supply), the easier it will be to maintain a stable operation.

Newly organized marketing coops may find some resistance to coop products. This is partly the result of the influence of the larger and more established system of stock companies. Nonetheless, a coop can certainly find and develop a steady and loyal clientele. One way to develop new clientele is through product promotion and consumer education. Marketing coops should consider allotting additional funds for these purposes.

Market Development

For assistance in developing a market program, the National Marine Fisheries Service (NMFS) is an excellent place to start. NMFS staff can help cooperatives with both planning a program and implementing it. They have had experience with various aspects of marketing—from arranging for

air freighting products to developing special fresh fish packaging and promotional materials.

Exporting

In foreign, as well as domestic, marketing good communication is essential; you need to know what the consumer wants. Foreign customers can provide good, dependable business, and many fishery cooperatives are already involved in this trade. However, foreign markets cannot be considered just a dumping ground for poor quality products; a cooperative, or any other kind of business, will lose credibility very quickly.

Before bidding on a foreign request:

1. Find out about the customer. All local offices of the U.S. Department of Commerce will provide your coop with a "World Trader Data Report"; there is a \$15.00 charge. This is a business' "character reference," which gives the history and present status of the foreign company.
2. Contact a freight-forwarding agency. It has expertise in a number of exporting areas: necessary documentation, legal responsibilities, best means of transportation, inspection and customs requirements. There is a minimal charge for their assistance.
3. See your banker. He will be involved in the transfer of funds from the foreign customer.

Your customer may ask for a pro forma "dummy" invoice. Make sure that the invoice includes all necessary details: price, freight and insurance liabilities, and date of shipment and delivery. The foreign customer will then go to his bank with the "dummy" invoice; his bank will issue a *letter of credit* by which you will be paid. For your own protection, ask for an *irrevocable* letter of credit.

This letter of credit will be sent, in your favor, through a U.S. bank. It is a sales contract; if it is violated in any detail (e.g., missing the shipping date), there may be legal trouble. The letter of credit must contain a number of specifications, such as U.S. inspection requirements. One essential specification is the type of liability for the product; there are three main types:

1. CIF—you arrange insurance and freight. These expenses are included in the total cost specified in the letter of credit.

2. CF—you arrange only cost and freight. In this case, the foreign customer covers the insurance.
3. FOB—you are liable for delivery only to the dock. Specify whether this means the U.S. or the foreign dock.

As soon as the freight arrives at the dock, the letter of credit may be redeemed.

A letter of credit is not the only means of reimbursement. A *draft* or an *open account* may be used; however, they are not advisable for the first transaction with a new customer. Taking out insurance on receivables through the Federal Credit Insurance Association is also a good means of protection.

There are alternatives to dealing directly with foreign customers. One route is to go through a broker; in some cases, this may be advantageous. A broker takes the burden of the risk involved in exporting, and he is an expert in import regulations and financial matters like devaluation. The Export Management Company is a group of professional brokers that markets products overseas; for more information, write Portland District Office, Office of Business Services, U.S. Dept. of Commerce, Room 618, 1220 SW 3rd, Portland, OR 97204.

Another option is provided by the Commerce Department. Its Agent Distributor Program assists in locating overseas agents to market a domestic company's goods. This service costs approximately \$50.

Cooperatives may also wish to explore the benefits of Domestic International Sales Corporations. They are part of a Federal program to encourage foreign sales. Small corporations are set up to handle all of a company's foreign orders. These corporations then receive a tax break—half of the tax can be withheld until the profits are distributed. Cooperatives should check to see whether they can qualify for this program.

SUMMARY

All too often, organizing a cooperative resembles trying to reinvent the wheel. Agricultural coops have been in operation for many years, and fishery cooperatives can learn a lot from their experience. The large, federated marketing cooperatives that have been very successful in agriculture can provide a useful example to fishing groups as well. Besides the experience of already-established coops, there are numerous other agencies and programs that can be of assistance. State extension services, the Spokane Bank for Cooperatives, and Federal agencies such as the Farmer Cooperative Service, the National Marine Fisheries Service, and the Department of Commerce can all provide

services to cooperatives, both in the planning stages and during actual operation.

Your lender, attorney, and certified public accountant are all good sources of information and assistance. It is a good idea to get them involved with the coop right from the start.

To sum up, a cooperative is many things; but above all, it is a business organization. No coop can survive without making a profit; and that takes a sound financial base, and sufficient working capital that is kept in the business, to enable the coop to grow. A successful coop also needs strong leadership from the board of directors and the management. Both should have good business sense: a manager needs a firm grasp of accounting, and board members should be able to interpret the financial and audit reports they receive.

As a business venture, quality control is a necessity. This is one of the biggest concerns of cooperatives already in operation. Here, a coop can use its cooperative organization to an advantage. As a *partner* in the coop, each member has much more invested in delivering good quality fish, since poor quality products can jeopardize the success of the entire coop. Management must be tough in this area, penalizing members who do not meet standards.

Good communication is another necessary element, both within the cooperative and between the coop and the rest of the market. Within the cooperative, the responsibilities of members, management, and board should be clearly defined. Two-way channels of communication between each component and the other two should be established and maintained on a regular basis. Good membership relations and communication are essential for building cooperation, the basic of a strong cooperative.

Communication is also necessary between a coop and the rest of the market with which it deals. Many fishery cooperatives have expressed the need for a better understanding of the wholesale market structure, and more timely information about changes in prices and demand. There is a need for better communication between the different segments of the fishing industry—fishermen, distributors, coops, stock companies, etc.—rather than the adversary climate that exists presently.

The domestic and foreign consumer also plays an important role in the marketing picture, and cooperatives must establish better two-way communication here, too. Like any other business, coops must find out what the consumers want, and then try to supply it at a price the consumer can afford. Equally important is a program of consumer education that will help to promote a cooperative's products. Marketing decisions should be taken into consideration during both the planning and the operating of a fishery cooperative.

GLOSSARY

- Capital shares*--ownership representation of investment in a business.
- Capital stock*--ownership representation of investment in a business.
- Cash/flow projection*--a projected monthly, quarterly, or yearly estimate of all cash flowing in and out of the business.
- Debenture bonds*--debt securities sold to members and the general public, unsecured by cooperative assets.
- Debt securities*--documents establishing the investment in the cooperative from outside funding sources (e.g., sales of shares to nonmembers or borrowing from nonmembers).
- Equity securities*--documents (e.g., shares and the like) establishing the members' investment in the cooperative.
- Escrow*--act of holding assets of one party pending performance of certain obligations by another party.
- Fixed assets*--assets of such a nature that the owner can use them repeatedly (machinery, buildings, etc.).
- Lien*--a legal right to hold property or to have it sold or applied for payment of a claim.
- Revolving and permanent capital*--Cooperatives commonly retain 80 percent of surplus (income less expense) due members. If this is returned to members after several years, it is considered revolving capital. If it is returned only at liquidation, it is referred to as permanent capital.
- Pooling*--the commingling of products from many members, the sales returns and operating expense, and prorating net returns among members in proportion to their share of cooperative business.
- Security*--a document or other evidence establishing a right to some form of property.
- Working capital*--the amount of current assets less the amount of current liabilities; this amount is free for other uses in the business.

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ATTENDEES

Jim Bergeron, OSU Marine Extension Agent, Clatsop County Extension Office, Box 207, Astoria, OR 97103
James Bray, Staff Economist, University of Washington Sea Grant, 3716 Brooklyn NE, Seattle, WA 98105
Johnnie O. Brown, Commercial Fisherman, Box 5576, Charleston, OR 97420
Mark Cedargreen
Sydney L. Chandler, Attorney, P.O. Box 359, Coos Bay, OR 97420
Edwin Dallas Cross, Kotzebue Sound Area Fishery Cooperative, Box 343, Kotzebue, AK 99752
Jennifer Dee, Symposium proceedings staff, 839 NE 56th, Seattle, WA 98105
Norman L. DeVall, Consultant, Salmon Trollers Marketing Assn., Fort Bragg; Cape Mendocino Maritime Agencies, P.O. Box 746, Mendocino, CA 95450
Clare M. Eberly, CEDC, 503 W. Northern Lights, Anchorage, AK 99502
Ralph Erickson, Kodiak Shrimp Trawlers Assn., P.O. Box 991, Kodiak, AK 99615
Joe Evich, Bellingham Tech. Inst., 3028 Lindberg Ave., Bellingham, WA 98225
John F. Evich, Attorney, 12051-1st NW, Seattle, WA 98177
Gerson Goldsmith, Attorney, 875 Boise Cascade Bldg., Portland, OR 97201
Ed Holm, CFCA Ketchikan, Box 1431, Ketchikan, AK 99901
Dave Johnson, Clatsop Community College, Astoria, OR 97103
Walter G. Jones, NMFS, Box 1662, Juneau, AK 99802
Ray Kratz, NMFS, 1700 Westlake Ave. N., Seattle, WA 98109
Ken Krueger, Spokane Bank for Cooperatives, Spokane, WA
Larry Lawson, Salmon Fisherman, 9035 42nd NE, Seattle, WA 98115
Bruce Mate, OSU Marine Extension Agent, Coos County Extension Office, Courthouse 100, Coquille, OR 97423
Harvey A. Meier, Extension Agribusiness Economist, Ext. Hall 240, Oregon State University, Corvallis, OR 97331
Dean Murray, Seafood Manager, 230 S. 18th, Reedsport, OR 97467
George Nakata, The Port of Portland, P.O. Box 3527, Portland, OR 97208
Kaare Ness, Fisherman, 20033-15 Ave. NW, Seattle, WA 98177
Terry Nosh, Aquaculture Field Specialist, Sea Grant Marine Advisory Program, University of Washington HG-30, Seattle, WA 98195
Bob O'Kain, All Coast Fishermen's Marketing Assn. (and Fisherman), 328 NW 22nd, Newport, OR 97365
Clark Permar, Fisherman, 460 Embarcadero, Oakland, CA 94606
Joe Redington, Sr., Norton Sound Fishermen's Coop, Unakleet, AK 99684
Don Reinhardt, Halibut Producers Coop, P.O. Box 1235, Bellingham, WA 98225
Jack Retasket, Fisherman, 384 NW 5th, Newport, OR 97365
Don Samuelson, Marine Field Agent, University of Washington at Grays Harbor College, Aberdeen, WA 98520
Peter Sandvig, Ocean Traders, P.O. Box 341, Sausalito, CA 94901
George Schenk, Schenk Seafood Sales, Inc., 17 Squalicum Fill, Bellingham, WA 98225
Frederick J. Smith, Extension Marine Economist, Ext. Hall 240, Oregon State University, Corvallis, OR 97331
Roy C. Stevens, NMFS, 1700 Westlake Ave. N., Seattle, WA 98109
Robert Strand, Prince Rupert Fishermen's Cooperative Assn., P.O. Box 520, Prince Rupert, BC, Canada

Eric Thor, University of California, Berkeley, CA 94720

David White, Fisherman, Box 1160, Grayland, WA 98547

G. Wright

Bruce Wyatt, University of California, 2555 Mendocino Ave., Santa Rosa,
CA 95401